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AUTHOR Miller, Laurie
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ABSTRACT

This report from a 1996 Child Care Action Campaign national audioconference concerns approaches taken by Wisconsin and Minnesota in designing and implementing federally funded child care subsidy systems. Wisconsin Works phases out Aid to Families with Dependent Children cash assistance and redirects funds into job training, child care, and health care to ensure that all low-income families participate in work and are supported in doing so. In order to give all families of equal income equivalent child care support, Wisconsin will lower income eligibility for subsidized child care from 200 percent to 165 percent of federal poverty level and impose a sliding fee scale involving high co-payments for low-income working families. Minnesota seeks to expand child care capacity to keep pace with needs while retaining and expanding investments in child care quality. Conference comments regarding the Wisconsin and Minnesota efforts focused on the importance of child care quality, the need for child advocacy, and the need to consider the impact of state policy on children's well being. Strengths of Wisconsin's plan included its universal nature; concerns about the program included its lack of guaranteed child care for families required to work, limited parent choice, elimination of child care subsidies for participation in training or education, and requirements that parents with children 12 weeks and older return to work. The major strength of Minnesota's planning process was its effort to ensure that quality would remain central to child care decisions, while concerns about the program included the proposed reliance on tax credits to expand funding for low-income child care. (KB)

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Wisconsin and Minnesota: Approaches to Welfare Reform and Child Care

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Child Care Action Campaign

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Overview

Recent federal welfare reform legislation replaces Aid to Families with Dependent Children (AFDC) with capped block grants to the states, abolishes the safety net for poor families, sets five-year lifetime limits on the receipt of cash assistance, and does away with child care guarantees. The law also gives states unprecedented flexibility to design and implement federally funded child care subsidy systems, but the extra control carries a high price: States are now largely on their own in making the hard choices, listed below, that will determine who gets subsidies, at what levels, for what type and quality of care, and for how long. Each choice will constrain others. What states decide will affect more than the future of families currently on welfare. It will shape the future of child care subsidies for all low-income and working families.

- Should work requirements be imposed on all parents currently on AFDC, or should there be exemptions for some?
- Should state funding for child care remain the same or increase?
- Should all low-income working families have equal access to child care, or should families leaving welfare for work get priority?
- Should there be time and/or income limits on eligibility for child care assistance?
- Should a voucher system or a cash system, or some combination, be used to pay child care providers?
- Should regulation and licensing requirements be changed?
- Should parent co-payments remain the same, or increase?

To explore these tough issues, CCAC conducted an audioconference on May 30, 1996 in which nearly 400 child care administrators and advocates participated. Featured were presentations from Wisconsin and Minnesota, two states with sharply contrasting child care priorities and plans.

When the Wisconsin legislature adopted the most sweeping welfare reform plan in the country earlier this year, it confronted and answered all of the critical child care questions listed above (although the strong opposition of parents and providers has forced a moratorium on implementation as described in the box on page 7). The Wisconsin W-2 welfare reform—in a nutshell—phases out AFDC cash assistance altogether and redirects funds formerly used for cash assistance (and funding for other "block-granted" programs) into job training, child care, and health care to ensure that all low-income families participate in work and are supported to do so.

The W-2 child care system places highest value on giving all families of equal income equivalent child care support, whether or not they have ever been on AFDC. To achieve this result within projected funding limits, Wisconsin will lower income eligibility for subsidized child care from 200 percent to 165 percent of the federal poverty level and impose a steep sliding fee scale based on cost of care that will involve very high co-payments for low-income working families.

By contrast, Minnesota has not yet adopted a full-fledged welfare reform plan or articulated its answers to the difficult child care choices ahead: families to be served, eligibility levels, co-payments, licensing requirements, and others. However, drawing on precedents of the past decade and benefiting from a recent series of public meetings that rallied popular support for continued investments in quality child care, Minnesota hopes to reconcile competing priorities. It seeks to expand child care capacity to keep pace with the needs of families forced to leave welfare for work while also retaining and expanding investments in child

Participants in the CCAC Audioconference

Presenters

David Edie
Director
Office of Child Care
Wisconsin Department of Workforce Development

Cherie Kotilinek
Direct Services Administrator
Minnesota Department of Children, Families and Learning

Helen Blank
Director of Child Care and Development
Children's Defense Fund

Louise Stoney
Early Childhood Specialist
Stoney Associates

CCAC

Barbara Reisman
Executive Director
Child Care Action Campaign

Laurie Miller
Program Associate
Child Care Action Campaign

Lance Dronkers
Program Assistant
Child Care Action Campaign

Issue Brief

Laurie Miller
Child Care Action Campaign

care quality that, at present, benefit only a minority of the low-income working families.

The audioconference presenters were David Edie, director, Wisconsin Office of Child Care; Cherie Kotilinek, direct services administrator, Minnesota Department of Children, Families and Learning; Helen Blank, director of child care and development, Children's Defense Fund; and Louise Stoney, a child care consultant. Barbara Reisman, CCAC executive director, introduced the panel by noting "the prominent role that Wisconsin governor Tommy Thompson has played in shaping proposals for national welfare reform legislation," and the influence that both Wisconsin and Minnesota will have on other states.

Reisman urges child care administrators and advocates in all states to "articulate very clearly to their governors and legislators what the trade-offs and implications are of different child care strategies," as their states proceed with welfare reform. It is important to link the child care decisions state governments make to the impacts they will have—on children's health and development, on family stability, on workforce productivity, and on school success, Reisman asserts. It is also vital, Reisman says, for advocates to be clear about their own priorities and for their outreach to community and business leaders who share these priorities. This issue brief summarizes the four presentations of the audioconference.

W-2 Child Care

As described by David Edie, Governor Thompson's plan for welfare reform, Wisconsin Works or W-2, passed the Wisconsin legislature with "overwhelming" bipartisan support and was signed into law in May 1996. Because W-2 dramatically restructured Wisconsin's welfare system, it would have required dozens of federal waivers had the federal legislation not been enacted. The new child care co-payment schedule was implemented on August 1, 1996 (and promptly withdrawn for reconsideration), with the remaining sections of W-2 to be implemented in 1997. (See box, page 7.)

The W-2 child care program was designed by the governor and his staff, the legislators and their staffs, and fiscal analysts. The role of the state Child Care Office was to identify "the possible alternatives and what the pros and cons might be," according to David Edie, who briefly summarized the ten objectives of the Wisconsin child care plan as follows: a focus on work, an effort to provide subsidies to all low-income families regardless of whether they have ever been on AFDC, no time limits on child care for eligible families, the creation of a "single, coherent, child care funding stream," support for parent choice through a voucher system, the assurance of basic regulatory protections for children who are receiving public funding, fair market reimbursement rates to child care businesses, cost-sharing with parents, cost control within the limits of federal and state resources by making hard trade-offs, and increased efficiency through automation in running the system.

Under the child care provisions of W-2, Wisconsin intends to raise annual child care funding from the current $48 million to $158 million in 1997 and $180 million in 1998 by using all former state and federal child care funding streams (consolidated into one stream) and spending additional state dollars to meet demand. Wisconsin intends to have no waiting lists. Payments will be centrally administered through a statewide automated system, a feature that Edie believes will greatly improve administrative efficiency.

As Edie briefly summarized, all families meeting income requirements will be eligible for child care help if they have children under the age of 13 and participate in employment, a subsidized job, or training program, or if, after nine months of continued employment, they need additional training to improve their work status. All families earning 165 percent of the federal poverty level, or less, will be eligible. A family of three will be eligible until its annual income reaches $21,000. Families will be required to participate in work activities when children are 12 weeks old, which Edie describes as "one of the more controversial items in the state legislation."

Although W-2 child care is not an entitlement, Wisconsin intends to serve all eligible families, Edie reports. The parent co-payment will be based on income and a percent of the cost of care, with co-payments starting at about 7.5 percent of cost for very low-income families and sliding up to full cost for families earning 165% of the federal poverty level.

Under W-2, Wisconsin's child care licensing system will remain in place and unchanged. Regulation will continue to be required for any provider receiving public funding, as will criminal-record checks, home visits, and adherence to health and safety standards.

However, W-2 introduces a change in training requirements; training will now be optional for certified family child care providers. Those who do not initially meet the training requirement will suffer a financial penalty in the form of a lower reimbursement rate. Conversely, Edie notes, they will have a financial incentive to get the training to earn a higher rate.

Licensed centers and family child care providers will receive the same payment as at present. Unlicensed family child care providers, called "certified care," will receive reimbursement at 75 percent of the licensed family child care rates, "or 50 percent of that rate if the provider is not trained," Edie reports.

The W-2 child care program will be managed locally by counties or tribes. A local administrative system will be supported by a statewide automation system.

Child Care in Minnesota: Planning for Welfare Reform

Cherie Kotilinek introduced Minnesota's evolving plan for low-income child care under welfare reform by pointing to a decade of work to reshape cash assistance for families, enhance child care quality, and improve the lives of children and families who live in poverty. Minnesota has looked for approaches "that do not harm and ultimately help children," that provide support so parents can work, that make work pay, and that set clear expectations for participation in work activities.

Against this background, in 1995, the Minnesota Department of Human Services, in cooperation with the Council of Nonprofits, the Children's Defense Fund, and the Minnesota Extension Service, held a series of meetings across the state to inform Minnesotans about the potential impact of federal block grants on their state's welfare and child care systems and to enlist their assistance in planning for new programs to respond to the anticipated increase in child care demand under impending welfare reform. Lively discussions led to the formulation of a set of guiding principles that reflect strong support for creating a program that is easy to administer, treats all families equally, supports low-income working families along a path that leads to higher incomes and private pay status, recognizes the importance of and supports developmentally appropriate care

for children, and divides responsibility for the costs of care among caregivers, parents, government, and private industry.

Although these principles are "pretty global," says Kotilinek, this public consensus "began to move us toward recognizing the fiscal realities and increased demand for child care under cash-assistance reform." The Minnesota proposal, still evolving, assumes the continuation of the voucher payment method based on parent choice and annual child care rate surveys to set subsidy levels at "fair market" levels.

In order to finance the expanded child care assistance that Minnesota families will need during welfare reform, Minnesota proposes to maximize the funds available through parent co-payments, tax credits, and child enforcement. Parent co-payments would continue to be based on family income, but "would be revised to encourage shared responsibility at lower income levels and to maximize tax credits." State child care and earned income tax credits, combined with federal tax credits, would create the potential for substantial financial assistance to many families. Minnesota is also exploring "tax credit express" which would make funds available on a monthly basis to help minimize the impact of higher co-payments.

Minnesota anticipates that the demand for child care will continue to be greater than the funds available. Difficult decisions regarding priorities and participation rates are yet to come. At this point, Minnesota is considering consolidating all funding sources, eliminating the dependent care deduction (in favor of tax credits) and making the pot of child care money equally available to all families in similar circumstances. Quality improvement funds would continue to be used to strengthen the child care infrastructure through improved provider recruitment techniques, expanded participation of non-licensed providers in training programs, and home visiting and outreach programs for home-based child care providers. Quality improvement funds would also be directed toward certain areas that administrators believe will be strained by work participation requirements, such as infant and toddler care, culturally appropriate care, and care during non-traditional hours.

The state of Minnesota expects to take leadership in promoting public-private partnerships in order to bring more resources into the child care system. It proposes to collect data about and examples of successful models, offer technical assistance to child care resource and referral agencies in their efforts to expand employer support for child care, and "involve employers and foundations in developing creative ways to increase the capacity of care and subsidize parents' cost of care." To further expand capacity, efforts to link Head Start and child care programs would be increased, in order to give working parents access to full-day child care without disrupting Head Start participation for their children.

The Job of Advocates: Remember the Children

Remember the children and think about them at every meeting about welfare policies, urged Helen Blank in her comments on Wisconsin and Minnesota. Administrators must remember what research such as the 1995 study, *Cost, Quality, and Child Outcomes in Child Care Centers* shows: Poor quality child care harms children and good quality child care helps children grow and be ready to learn when they enter school. As states make choices about child care, they must focus on the impact of each new policy on children's well-being, not just on how many children can be served and how many mothers can go to work.

According to Blank, Wisconsin "has veered heavily to the side of workforce development, as some of its authors say." But even here, she predicts, the plan is likely to fall short of its goal because child care is not a guarantee for families required to work. Moreover, Blank says the Wisconsin plan "severely limits parent choice" by setting "policies that steer families toward informal, provisionally certified child care." She urges administrators not to follow Wisconsin's lead on this, but rather to structure co-payment policies, sliding fee scales, and vouchers so that parents can afford to choose among different types of good quality child care.

Blank emphasizes two other major concerns about Wisconsin's plan. First, it eliminates child care subsidies for participation in training or education, with exceptions for teen parents and parents in subsidized jobs who are eligible for training. "If you look at studies, mothers who have had education simply make more money, and if your goal is to help parents be self-sufficient and give children a home where mothers and families can care for them, to cut off all support for education and training is penny-wise and pound-foolish." Her second concern is that Wisconsin, like Michigan, will require parents with children 12 weeks and older to work. All states should examine their infant care supply before requiring parents of very young children to work, she counsels.

Turning to Minnesota, Blank praises that state's public planning process, which has produced strong evidence of support for good quality care. Blank believes that this process will ensure that child care quality remains central to the state's child care decisions during welfare reform. However, Blank believes Minnesota's proposed reliance on tax credits to expand the funding pool for low-income child care may be misguided. The use of tax credits will not be of much help to low-income families, because parents "who make $10,000 can only pay so much for child care and it's not much," she says.

Broadening the focus of her comments, Blank cautioned all states to move slowly (with welfare and child care reform) and base any plans on careful planning and evaluation. No changes should be made without complete understanding of the total effect of all decisions being made. A particular change, such as expansion of child care assistance, may be appropriate by itself, but may have a "devastating impact on families if it is part of a series of other changes that will negatively affect children," according to Blank.

Difficult Choices: Challenges for the Early Childhood Field

Louise Stoney of Stoney Associates sees positive points in Wisconsin's and Minnesota's plans. "We want Wisconsin's universal care. We want Minnesota's focus on affordability, quality, and choice. Unfortunately, without a very, very large increase in funds, we can't have both, at least not in the short term....Limited funds will always force us to make trade-offs along the way."

Stoney "used to believe that...we should always focus on affordability, quality, and choice, and just accept the fact that we couldn't serve all families." But then she began to realize that most states serve only ten to 15 percent of eligible children and started to think about the "thousands and thousands of families that are on the waiting list and get no help at all."

Now Stoney does not think that there is a single "right answer." She doesn't even think the right question is, Which approach is better? Rather, she suggests that child care advocates and administrators ask themselves, "Given the political and economic context in our states and communities, which approach is most likely to move the child care system in the right direction?"

In some states an approach based on universal access may generate more funding and support for the child care system. In others, a strategy that focuses on affordability, quality and choice will be more effective—if waiting lists are maintained and made highly visible. Thus, Wisconsin and Minnesota should be viewed, not as models, but as experiments whose outcomes need to be carefully studied.

This is particularly the case with co-payments, according to Stoney, who reports that many states are "crunching numbers furiously, trying to figure out what they can do with parent fees, where they can push them." The problem here is that there is no body of knowledge to help child care administrators and advocates move forward with a sophisticated analysis. Moreover, Stoney contends, we are not really seeing the full dimensions of this problem. Even programs like Head Start or prekindergarten "aren't off the hook." Instead of charging parent fees, they operate on only a part-day, part-year basis, which also doesn't meet the needs of low-income working parents. Moreover, states that use the Income Disregard are probably forcing parents to pay high co-payment fees comparable to those implemented briefly and still under consideration in Wisconsin. Thus, "we really need to do some careful study of the various policy choices and the outcomes that result."

In the short term, Wisconsin and Minnesota are struggling with two key issues that will concern all other states—parent co-payments, and the increased use of informal, unregulated care. Stoney characterizes parent fees proposed in Wisconsin as "very, very high and completely unacceptable for many families." On the other hand, she notes that very low parent fees would result in "thousands of families getting no help at all." As for informal child care, because it "is very different from the kind of child care provided in a child care center, or in many cases, in a regulated family child care home...the primary strategy" has been to try to regulate it. But Stoney suggests that regulation has "only reached the tip of the iceberg" because many informal child care providers "just don't see themselves as professional caregivers. It's not their perspective on the world, and they're not likely to respond" to a regulatory approach.

Because unregulated care is already a primary form of child care chosen by low-income parents who are working and receiving AFDC, and because its use is likely to jump dramatically as work requirements increase, Stoney urges the early childhood field to "think of new strategies to support informal providers and to reach the children that they serve." If, as some research suggests, informal providers think more like parents than professional child care providers, "why not use 'family resource techniques' to support providers? Why not think about ways to extend Head Start's parent involvement and education component to providers?"

A Quick Retreat and Response in Wisconsin

On August 1, 1996 Wisconsin implemented its new co-payment schedule that set sharply higher fees for many parents. The governor suspended the plan a day later because of appeals by frantic parents to legislators, and because centers protested loudly against the significant losses of clients and revenue that they said would result. Governor Thompson appointed a Task Force to revise the schedule by the end of the year.

On December 12, Governor Thompson announced a new plan whose features include:

- co-payment capped at 16% of gross income
- mothers of children under age six will not be required to take jobs unless child care is first available
- includes $25 million in federal funds earned from caseload reduction: $20 million to reduce the waiting list for working poor families before W-2 is formally implemented; and $5 million to build capacity, improve quality and train new providers
- Governor will seek legislative approval to raise eligibility for child care subsidies to 200% of federal poverty instead of the current 165%
- reduces price differential between licensed and certified care from 50% to 30%

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About the Child Care Action Campaign

Child Care Action Campaign (CCAC) is a national nonprofit advocacy organization whose goal is to improve the lives of children and their families by expanding the supply of good quality, affordable child care. Founded in 1983, headquartered in New York, and assisted by a panel of advisors in every state, CCAC uses its information resources and strategic skills to engage parents, policymakers, business leaders, government officials, and child care providers in improving child care and early education. Through its national conferences, business roundtables, and state forums, CCAC is a catalyst for change. CCAC has led national thinking in defining child care as a bottom line economic issue and as a fundamental component of welfare reform and education reform.

About CCAC's Family Support Watch (FSW)

As part of its mission to increase the availability of good quality, affordable child care programs, CCAC established the Family Support Watch (FSW), a project to monitor the implementation of the 1988 Family Support Act and ensure that eligible families have access to the child care guaranteed by the Act. Since 1989, FSW has engaged in a wide range of policy analysis and advocacy activities including issuing reports, testifying at public and Congressional hearings, communicating to the public in print and broadcast media, distributing outreach materials to parents, and convening state administrators, advocates, and leaders through national audioconferences. In short, CCAC has tried, wherever possible, to get out the message that child care is a crucial component of any welfare-to-work strategy and to work with state leaders to ensure that child care benefits are delivered to families.

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Participants in the CCAC Audioconference

David Edie
Director, Office of Child Care
Wisconsin Department of Workforce Development
PO Box 7851
Madison, WI 53707-7851
608-266-6946

Cherie Kotilinek
Direct Services Administrator
Minnesota Department of Children, Families and Learning
Human Services Building
444 Lafayette Road
St. Paul, MN 55155
612-296-2030

Helen Blank
Director of Child Care and Development
Children's Defense Fund
25 E Street NW
Washington, DC 20001
202-628-8787

Louise Stoney
Early Childhood Specialist
Stoney Associates
10 Tillinghast Avenue
Albany, NY 12204
518-463-3677

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330 Seventh Avenue, 17th floor, New York, NY 10001 • 212-239-0138 • Fax 212-268-6515